

E75D
State Lottery and Gaming Control Agency

Operating Budget Data

(\$ in Thousands)

| | <u>FY 17</u> <u>Actual</u> | <u>FY 18</u> <u>Working</u> | <u>FY 19</u> <u>Allowance</u> | <u>FY 18-19</u> <u>Change</u> | <u>% Change</u> <u>Prior Year</u> |
|------------------------------|---|--|--|--|--|
| General Fund | \$20,706 | \$19,669 | \$6,930 | -\$12,739 | -64.8% |
| Adjustments | 0 | -10,318 | 13 | 10,332 | |
| Adjusted General Fund | \$20,706 | \$9,351 | \$6,943 | -\$2,408 | -25.7% |
| Special Fund | 76,778 | 80,653 | 92,488 | 11,835 | 14.7% |
| Adjustments | 0 | 906 | 205 | -701 | |
| Adjusted Special Fund | \$76,778 | \$81,559 | \$92,693 | \$11,134 | 13.7% |
| Adjusted Grand Total | \$97,485 | \$90,910 | \$99,636 | \$8,727 | 9.6% |

Note: FY 18 Working includes targeted reversions, deficiencies, and across-the-board reductions. FY 19 Allowance includes contingent reductions and cost-of-living adjustments.

- The fiscal 2019 allowance includes a fiscal 2018 deficiency appropriation of \$2.8 million in special funds for contractual services for the new Lottery Central Monitoring and Control System; a fiscal 2018 negative deficiency appropriation of \$10.2 million in general funds and \$1.7 million in special funds due to the State Lottery and Gaming Control Agency's (SLGCA) divestiture of video lottery terminals (VLT); and a fiscal 2018 deficiency appropriation of \$78,757 in general funds for negotiated personnel costs.
- Including deficiency appropriations and other adjustments, the SLGCA allowance increases by \$8.7 million, or 9.6%, compared to the fiscal 2018 working appropriation. The general fund allowance declines by \$2.4 million, or 25.7%, compared to the fiscal 2018 working appropriation, made possible in part by additional special funds available from the agency's share of VLT revenue.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

| | <u>FY 17 Actual</u> | <u>FY 18 Working</u> | <u>FY 19 Allowance</u> | <u>FY 18-19 Change</u> |
|------------------------|--------------------------------|---------------------------------|-----------------------------------|-----------------------------------|
| Regular Positions | 324.10 | 324.10 | 324.10 | 0.00 |
| Contractual FTEs | <u>10.75</u> | <u>9.75</u> | <u>9.75</u> | <u>0.00</u> |
| Total Personnel | 334.85 | 333.85 | 333.85 | 0.00 |

Vacancy Data: Regular Positions

| | | |
|---|-------|-------|
| Turnover and Necessary Vacancies, Excluding New Positions | 12.67 | 3.91% |
| Positions and Percentage Vacant as of 12/31/17 | 18.00 | 5.55% |

- The fiscal 2019 allowance for SLGCA includes 324.1 regular full-time equivalent positions, unchanged from fiscal 2018.
- SLGCA reports 18.0 vacant positions at the end of calendar 2017, a vacancy rate of 5.55%.
- Contractual staff remains constant at 9.75 positions.

Analysis in Brief

Major Trends

Traditional Lottery Sales Reach a Record High in Fiscal 2017: Sales, prize payouts, and agent earnings all experienced increases in fiscal 2017, with sales growing by 1.2% to a record high of \$1.93 billion. However, net general fund revenues from the lottery declined by 8.7% to \$483.8 million.

Number of Lottery Retailers Declines: There were 4,440 lottery retailers in fiscal 2017, a 2.2% decline from fiscal 2016. This marks the second consecutive year of decline in the number of retailers. The agency paid out \$145.9 million in commissions to retailers in fiscal 2017. **SLGCA should consider adding measures that better measure the agency's lottery retail network.**

Casino Audit Findings Increase: The number of audit findings at State casinos increased significantly in fiscal 2017, from 52 in fiscal 2016 to 109. One reason for the increase was the addition of the MGM National Harbor casino in Prince George's County. The number of findings at the Horseshoe Casino Baltimore also increased. **SLGCA should develop a rating system or other method of reporting in order to convey the severity of audit findings as well as its disciplinary actions.**

Issues

Sales of Instant Ticket Games Drive Record-setting Year: Following a record-setting fiscal 2016 that saw an 8.0% increase in sales of traditional lottery games, sales also grew in fiscal 2017, although at a rate of only 1.6%. Instant tickets and monitor games claimed most of the sales. In fiscal 2016, sales of jackpot games grew by 26.4% over fiscal 2016. Without a massive jackpot in fiscal 2017, however, jackpot sales fell by 23.2%.

Sixth Casino Drives State Revenue Increase: Although the casino in Prince George's County opened in December 2016, it is already having a significant effect on State revenues. Overall, casino revenues to the State increased by \$277.0 million, or 24.2%, driven by the new revenue stream from MGM National Harbor (\$338.4 million). The large influx of revenue was partially offset by declining revenue at other facilities. Maryland Live! in Anne Arundel County saw a 9.1% decline in revenue, while the Hollywood Casino in Cecil County and the Horseshoe Casino Baltimore each had smaller declines.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

Lottery Retailers by County: According to SLGCA, as of the end of calendar 2017, there were 4,414 lottery retailers. This is a small decrease from the number of retailers at the end of calendar 2016 (0.8%).

E75D – State Lottery and Gaming Control Agency

Operating Budget Analysis

Program Description

Since 1973, the State Lottery and Gaming Control Agency (SLGCA) has administered and operated lottery games to generate revenue for the State. The lottery currently offers the following games: Pick 3, Pick 4, Keno, Instant Ticket Games, Keno Bonus and Super Keno Bonus, Mega Millions, Powerball, Bonus Match Five, Multi-Match, Racetrax and Racetrax Bonus, 5 Card Cash, and most recently, Cash4Life.

All games, except Instant Ticket Games, are draw games, meaning that players pick their numbers or use computer-generated numbers, receive a ticket, and then wait for a drawing to see if they have won. With Instant Ticket Games, players scratch off a latex covering on a ticket play area to reveal preprinted combinations. Games are sold through lottery agents, which are private businesses that receive commissions and fees in exchange for selling the games to the public.

The State Lottery and Gaming Control Commission has oversight responsibility for SLGCA. In 2008, the commission was expanded to address additional responsibilities stemming from the video lottery terminal (VLT) legislation. SLGCA is responsible for the administration of the VLT program including accounting for and distributing VLT revenues, managing the program's central system, and regulating and licensing of operators. In fiscal 2012, SLGCA's responsibilities were further expanded to include the regulation of table games at the previously authorized VLT facilities, among other new duties.

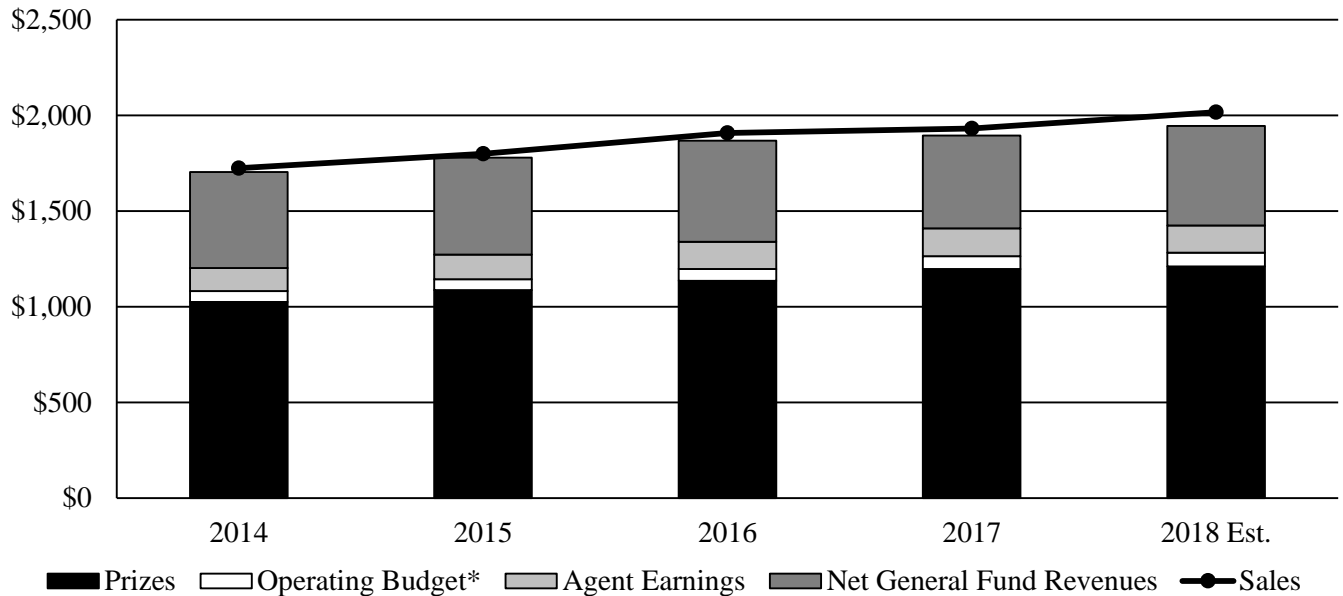
Performance Analysis: Managing for Results

1. Traditional Lottery Sales Reach a Record High in Fiscal 2017

Proceeds from the traditional lottery games pay for prizes, agent earnings, and all operating expenses of SLGCA. In fiscal 2017, 62.0% of sales paid for prizes, 7.6% paid for agent commissions and redemption fees, 3.5% paid for operations of the lottery program, and 25.0% was credited as revenue to the State (including a small percentage forwarded to the Maryland Stadium Authority per statute). **Exhibit 1** shows total lottery sales and the distribution of those sales from fiscal 2014 through an estimate for fiscal 2018.

Sales, prize payouts, and agent earnings all experienced increases in fiscal 2017, with sales growing by 1.2% to a record high of \$1.93 billion. SLGCA expects sales to increase further and cross the \$2.0 billion mark for the first time in fiscal 2018. However, net general fund revenues from the lottery declined by 8.7%, to \$483.8 million. The change is primarily due to higher than typical prize payouts in the Pick 4 game. Further discussion of sales trends is included in the Issues portion of this analysis.

Exhibit 1
Lottery Sales and Expenditures
Fiscal 2014-2018 Est.
(\$ in Millions)



*The operating budget does not include funds to operate the video lottery terminal program.

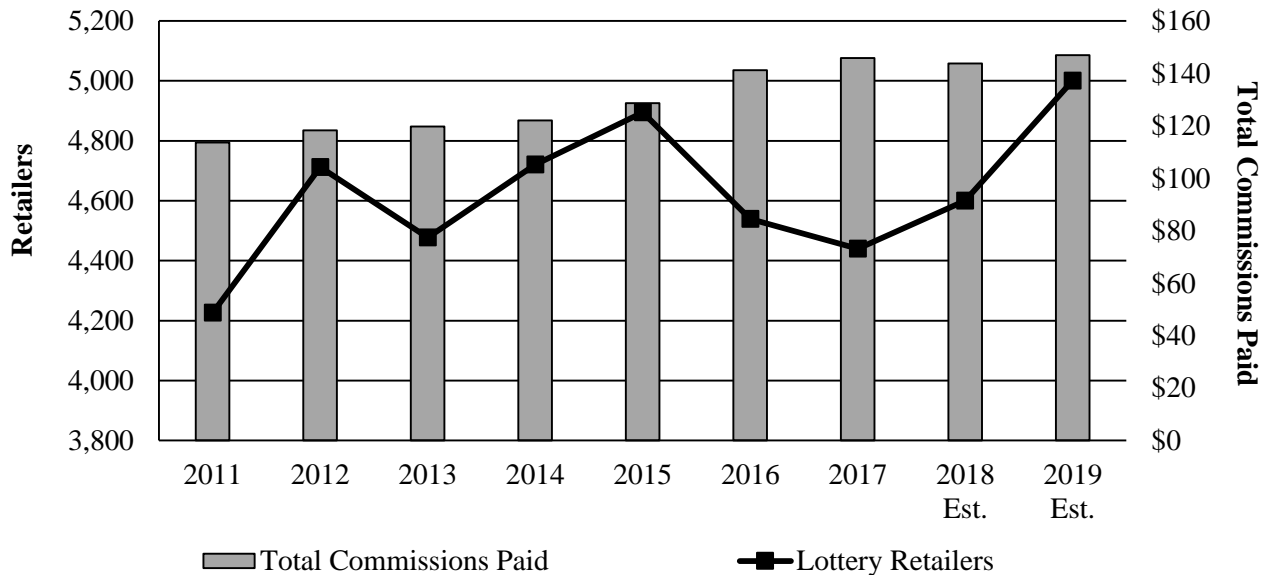
Note: General fund revenues exclude disbursements to the Maryland Stadium Authority.

Source: State Lottery and Gaming Control Agency

2. Number of Lottery Retailers Declines

SLGCA relies on its network of lottery retailers to sell its lottery games. There were 4,440 retailers in fiscal 2017, a 2.2% decline from fiscal 2016. This marks the second consecutive year of decline in the number of retailers. Of these, 363 retailers participate in the Expanded Cashing Authority Program and are allowed to cash winnings of up to \$5,000. All other retailers may cash winning tickets up to \$600. Agents earn 5.5% of sales at retail establishments as well as 3.0% in cashing commissions. **Exhibit 2** shows the number of agents and their earnings from fiscal 2011 through an estimate for fiscal 2019. The agency paid out \$145.9 million in commissions to retailers in fiscal 2017. The agency was unable to point to any particular reason for the decline in retailers in fiscal 2017. SLGCA is forecasting an increase in retailers in fiscal 2018 and 2019 due to a new vendor contract that includes a retail recruitment specialist, as well as a simplified application process that is designed to make the addition of retailers more efficient.

Exhibit 2
Lottery Retailers and Earnings
Fiscal 2011-2019 Est.
(\$ in Millions)



Source: State Lottery and Gaming Control Agency

SLGCA included a new performance objective and new performance measures beginning with the fiscal 2018 budget submission. The lottery aims to “support Maryland businesses and the lottery retail network.” Other than paying the retailers their earned commission, it is unclear how the performance measures in Exhibit 2 demonstrate how SLGCA meets the objective of supporting Maryland businesses. **SLGCA should consider adding measures that better measure the agency’s lottery retail network.**

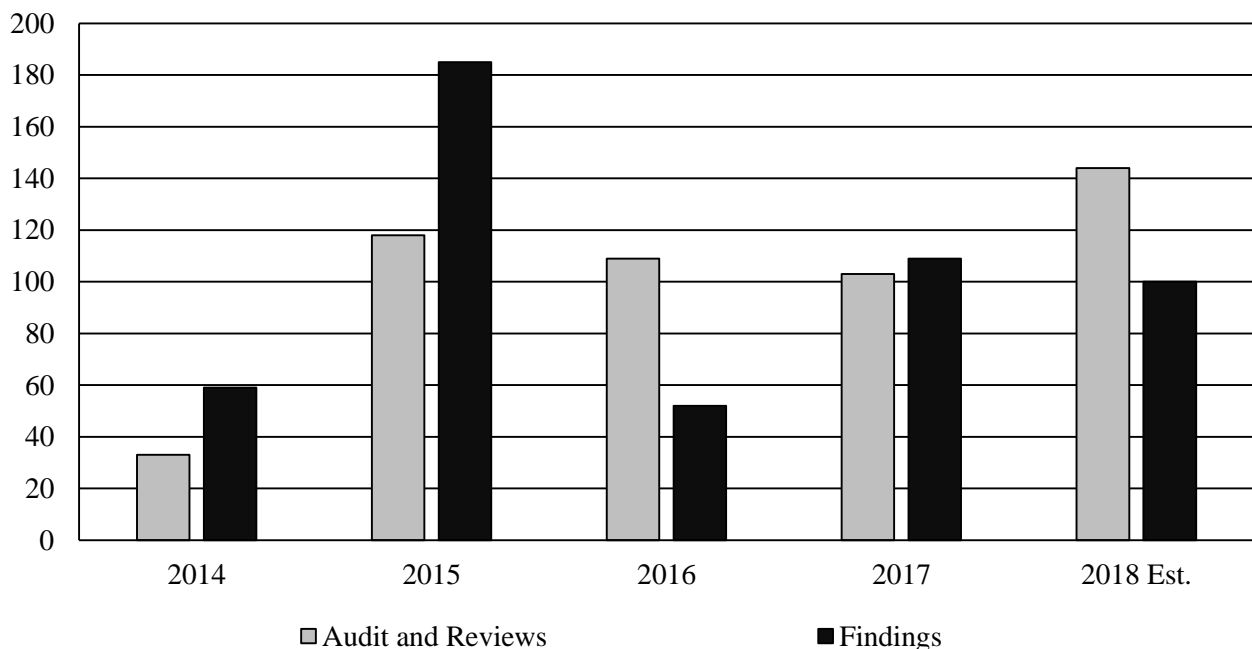
3. Casino Audit Findings Increase

At the request of the Department of Legislative Services (DLS), SLGCA began to report performance measures for its gaming program in the fiscal 2016 budget cycle. SLGCA’s responsibilities associated with the State’s gaming program started in 2008. An entirely new division was established with new and unique duties that enable the regulation and oversight of the casino facilities. It is, therefore, important to have performance oversight through the legislative budget process. The statute requires that SLGCA issue regulations requiring regular audits of gaming facilities. Those audits must disclose whether the accounts, records, and control procedures maintained

by the licensees are as required by statute and regulation. SLGCA is now reporting on the number of casino audits and reviews and the number of findings.

According to SLGCA, once a gaming facility is alerted to a finding, the facility management must report on how it will address the finding. Depending on the severity of the finding, SLGCA's enforcement division may issue appropriate disciplinary action. SLGCA will then perform follow-up audit test work to ensure that the finding has been resolved. As shown in **Exhibit 3**, the number of findings increased significantly in fiscal 2017, from 52 in fiscal 2016 to 109. One reason for the increase was the addition of the MGM National Harbor casino. The number of findings at the Horseshoe Casino Baltimore also increased. Despite tracking and reporting the number of audits and findings, the agency does not report on the severity of the findings, the number of repeat findings, or what disciplinary actions are taken. **SLGCA should develop a rating system or other method of reporting in order to convey the severity of audit findings as well as its disciplinary actions.**

Exhibit 3
Gaming Facilities – Audits and Findings
Fiscal 2014-2018 Est.



Source: State Lottery and Gaming Control Agency

Fiscal 2018 Actions

Cost Containment

At the September 2017 Board of Public Works meeting, SLGCA's fiscal 2018 appropriation was reduced by \$379,000 in general funds. The funds were to be used for VLT operations but were unneeded as the agency no longer owns VLT machines.

Proposed Deficiencies

Deficiency appropriations reduce the fiscal 2018 budget by \$9.1 million:

- \$2.8 million in additional special funds in fiscal 2018 for contractual services for the new Lottery Central Monitoring and Control System, which is discussed later in this analysis.
- A negative deficiency of \$10.2 million in general funds and \$1.7 million in special funds due to SLGCA's divestiture of VLTs. The appropriation represents savings from the agency no longer paying to maintain the VLT machines.
- A deficiency appropriation of \$78,757 in general funds for negotiated personnel costs.

Across-the-board Employee and Retiree Health Insurance Reduction

The budget bill includes an across-the-board reduction for employee and retiree health insurance in fiscal 2018 to reflect two additional payroll health insurance deduction holidays based on a surplus in the health insurance account. This agency's share of this reduction is \$179,441 in general funds and \$180,549 in special funds.

Proposed Budget

As shown in **Exhibit 4**, SLGCA's fiscal 2019 allowance increases by \$8.7 million, or 9.6%, compared to the fiscal 2018 working appropriation, including deficiencies and other adjustments. General funds decrease by \$2.4 million, or 25.7%, while special funds increase by \$11.1 million, or 13.7%.

Exhibit 4
Proposed Budget
State Lottery and Gaming Control Agency
(\$ in Thousands)

| How Much It Grows: | <u>General</u> <u>Fund</u> | <u>Special</u> <u>Fund</u> | <u>Total</u> |
|-----------------------------------|---------------------------------------|---------------------------------------|---------------------|
| Fiscal 2017 Actual | \$20,706 | \$76,778 | \$97,485 |
| Fiscal 2018 Working Appropriation | 9,351 | 81,559 | 90,910 |
| Fiscal 2019 Allowance | <u>6,943</u> | <u>92,693</u> | <u>99,636</u> |
| Fiscal 2018-2019 Amount Change | -\$2,408 | \$11,134 | \$8,727 |
| Fiscal 2018-2019 Percent Change | -25.7% | 13.7% | 9.6% |

Where It Goes:

Personnel Expenses

| | |
|--|-------|
| Statewide impact of health insurance deduction holidays in fiscal 2018 | \$360 |
| Statewide general salary increase | 219 |
| Annualization of negotiated salary increase | 110 |
| Reclassification | 50 |
| Employees' retirement system contributions | 25 |
| Workers' compensation premium assessment | 18 |
| Other fringe benefit adjustments | -18 |
| Turnover adjustments | -41 |

Other Changes

| | |
|--|--------|
| Changes in costs for central lottery system | 7,007 |
| Lottery advertising | 2,419 |
| Lottery instant ticket printing | 300 |
| Temporary office assistance | 250 |
| Vehicle replacements | 116 |
| Contractual personnel costs | 93 |
| Divestiture of video lottery terminal machines | -2,553 |
| Other changes | 372 |

| | |
|--------------|----------------|
| Total | \$8,727 |
|--------------|----------------|

Note: Numbers may not sum to total due to rounding.

Personnel

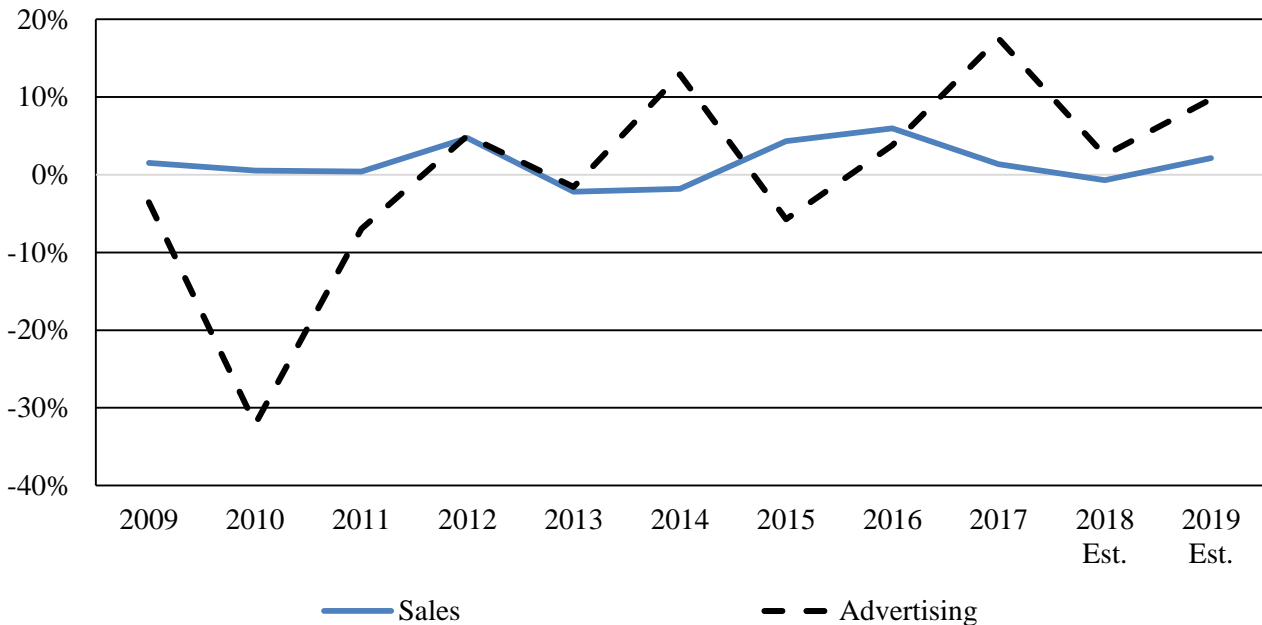
The general salary increase and the increase in health insurance costs to reflect the one-time impact of the fiscal 2018 health insurance deduction holidays are the main drivers of personnel expenditure growth. The fiscal 2019 allowance includes funds for a 2.0% general salary increase for all State employees, effective January 1, 2019. These funds are budgeted in the Department of Budget and Management's (DBM) statewide program and will be distributed to agencies during the fiscal year. This agency's share of the general salary increase is \$13,277 in general funds and \$205,243 in special funds. In addition, employees will receive another 0.5% increase and a \$500 bonus effective April 1, 2019, if actual fiscal 2018 general fund revenues exceed the December 2017 estimate by \$75 million. These funds have not been budgeted. The Administration will need to process a deficiency appropriation if revenues are \$75 million more than projected.

Regular Lottery Operations

Excluding gaming operations, the fiscal 2019 allowance increases by \$10.6 million, or 14.8%. The largest increase is \$7 million in special funds for changes in costs related to the agency's operation of its Lottery Central Monitoring and Control System. The central system connects SLGCA with its system of retailers and monitors and accounts for all regular lottery sales. The agency will begin using an updated central lottery system in fiscal 2018. The contract for the system provides services including system implementation, operation and maintenance of the central system and related systems, sales, marketing, instant ticket inventory and distribution, accounting, terminals, software, and a telecommunications network to connect retailers to primary and backup data centers. As noted earlier, there is a fiscal 2018 deficiency appropriation of \$2.8 million for the system. The annual cost of the prior contract was approximately \$19 million. The new system will cost the agency approximately \$28.9 million in fiscal 2019, with costs varying depending on lottery ticket sales. **SLGCA should discuss the implementation and cost of the updated system.**

The other significant change in the administration and operations program is a \$2.4 million increase in special funds for advertising. The advertising budget has steadily grown in recent years from \$13.7 million in fiscal 2015 to \$18.1 million in the fiscal 2019 allowance. **Exhibit 5** shows the percent change in lottery sales compared to the percent change in the SLGCA advertising budget since fiscal 2009. As shown in Exhibit 5, there is little correlation between changes in lottery advertising spending and lottery sales, so it is difficult to claim with any certainty the impact of advertising on increasing lottery sales. However, the agency has recently shifted its advertising focus to its scratch-off ticket sales after noticing that its share of sales in Maryland was lower than in many other states. The fiscal 2018 share of advertising dedicated to instant tickets is 54.4%, compared to 35% in fiscal 2015. Over this time period, Instant Ticket Game sales have increased by an average of about 11% per year, while overall ticket sales excluding scratch-offs have remained approximately flat.

Exhibit 5
Percent Change in Lottery Sales and Advertising Spending
Fiscal 2009-2019 Est.



Source: Governor's Budget Books, Fiscal 2009-2019; Lottery Budget, Fiscal 2009-2019

As part of the Governor's budget plan, DBM is assuming an additional \$8 million in revenue to the general fund from lottery sales in addition to that included in the revenue forecast from the Board of Revenue Estimates. DBM and SLGCA state that the basis for the revenue assumption is a study done by the New York state lottery that found that an additional \$1 in advertising led to an additional \$5 in profit. However, this is a proprietary study that could not be reviewed by DLS, so it is unclear what assumptions the New York study makes and whether the findings are applicable to the Maryland lottery. Studies from other states have found that while the maintenance of existing levels of advertising can prevent sales reductions, increasing advertising has a minimal impact on sales. A 2010 study from the Florida Office of Program Policy Analysis and Government Accountability found that jackpot amounts and retailer density had a much stronger relation to lottery sales than advertising. A 2012 study by the Washington state Joint Legislative Audit and Review Committee found that jackpot amounts and economic conditions are the strongest predictors of lottery ticket sales. Based on the available evidence, it is difficult to have a high degree of confidence in DBM's and SLGCA's revenue assumption. **SLGCA should comment on its assumption of additional revenue based on its increased spending on advertising.**

VLT and Gaming Operations

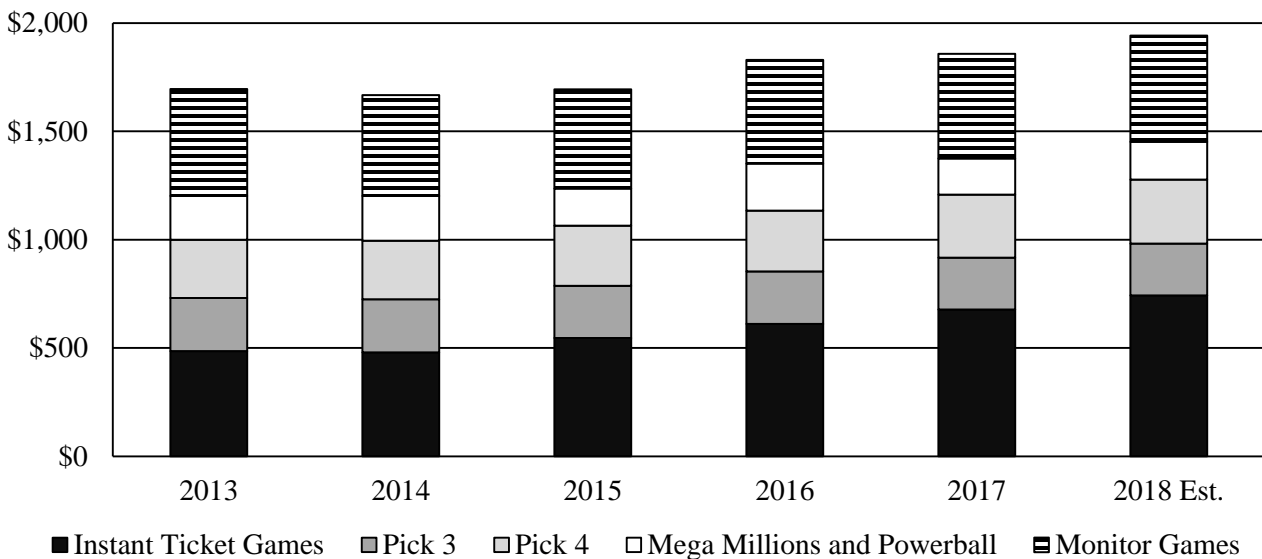
SLGCA's allowance for gaming operations declines by \$2.4 million, or 12.5%. The decline is due to a decrease of approximately \$2.6 million that results from savings from the agency's divestiture of ownership of VLT machines. Further discussion of casino operations is included in the Issues section of this analysis.

Issues

1. Sales of Instant Ticket Games Drive Record-setting Year

Following a record-setting fiscal 2016 that saw an 8.0% increase in sales of traditional lottery games, sales also grew in fiscal 2017, although at a rate of only 1.6%. **Exhibit 6** shows the total sales of selected games from fiscal 2013 through an estimate for fiscal 2018. The exhibit shows the relative popularity of the games, with instant ticket and monitor games claiming most of the sales.

Exhibit 6
Sales – Selected Games
Fiscal 2013-2018 Est.
(\$ in Millions)



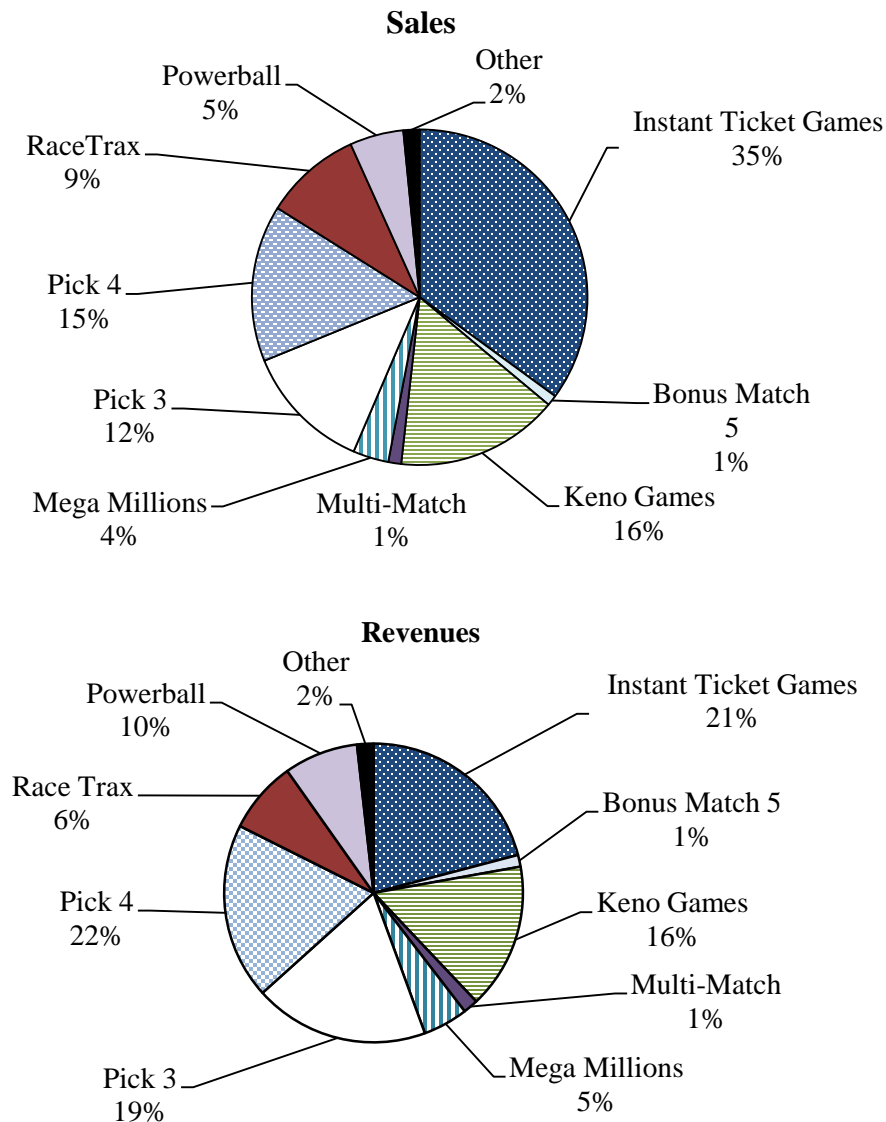
Source: State Lottery and Gaming Control Agency

Several years ago, SLGCA noted that its sales of instant tickets were underperforming as compared to other states. As noted earlier in this analysis, SLGCA has increased its effort to market these games. Sales of instant tickets grew by 13.8% in fiscal 2015, 11.7% in fiscal 2016, and 10.7% in fiscal 2017.

Sales of Powerball and other jackpot games are driven much more by jackpot size than by marketing efforts. In fiscal 2016, sales of jackpot games grew by 26.4% over fiscal 2016. In January 2016, there was a record \$1.6 billion jackpot that drove sales up considerably. Without a massive jackpot in fiscal 2017, however, jackpot sales fell by 23.2%.

Exhibit 7 shows sales and revenues for each game type in fiscal 2017. As shown, Instant Ticket Games make up 35% of sales, but only 21% of revenue. In fiscal 2015, Instant Ticket Games made up 32% of sales and still only 18% of revenue. Instant tickets are popular, in part, because of the relatively high payout rates, which result in less return to the State. This is worth considering as SLGCA continues to place advertising emphasis on increasing instant ticket sales.

Exhibit 7
Lottery Sales and Revenues
Fiscal 2017



Source: State Lottery and Gaming Control Agency

2. Sixth Casino Drives State Revenue Increase

Since fiscal 2008, SLGCA has been tasked with the responsibility of administering the VLT program for the State. This includes the regulation and licensing of operators, accounting for and distributing VLT and table game revenues, managing the program's central system, and the purchase or lease of gaming machines.

Background

The following locations have video lottery operation licenses:

- ***Cecil County:*** Penn Cecil Maryland Inc. (Penn Cecil) was awarded a license to operate a VLT facility with 1,500 VLTs in Perryville in Cecil County. The facility opened to the public with 1,500 VLTs on September 27, 2010. It currently houses 822 machines and 20 table games. The facility is now owned by Gaming and Leisure Properties, Inc.
- ***Worcester County:*** Ocean Enterprise 589, LLC (Ocean Downs) was awarded a license to operate a facility with 800 VLTs at Ocean Downs Racetrack in Worcester County. The facility opened with 750 VLTs on January 4, 2011, and now has the full complement of 800 VLTs and recently added 10 table games.
- ***Anne Arundel County:*** PPE Casino Resorts, LLC was awarded a license to operate a facility with 4,750 VLTs adjacent to Arundel Mills Mall in Anne Arundel County. In June 2012, the Maryland Live! facility opened with 3,171 VLTs. The facility now has 3,978 VLTs and 202 table games.
- ***Allegany County:*** On April 26, 2012, Evitts Resort, LLC was awarded a video lottery operation license to own and operate a video lottery facility adjacent to the Rocky Gap Lodge and Resort, subject to certain contingencies. The facility opened in May 2013 and currently has 663 VLTs and 17 table games. It is now owned by Golden Entertainment, Inc.
- ***Baltimore City:*** On July 31, 2012, the location commission awarded the Baltimore City casino operation license to CBAC Gaming, LLC for a facility with 3,750 VLTs, subject to certain contingencies. The Horseshoe Casino Baltimore opened in August 2014 with 2,500 VLTs and 147 table games. It currently has 2,202 VLTs and 179 table games.
- ***Prince George's County:*** On December 20, 2013, the location commission awarded the Prince George's County casino operation license to MGM National Harbor, LLC for a facility with 3,600 VLTs and 140 table games. The facility opened in December 2016 with 3,237 VLTs and 178 table games. The MGM National Harbor casino currently has 3,126 VLTs and 168 table games.

State law authorizes 16,500 VLTs in State casinos, but the casinos currently contain 11,591 VLTs, or 66.2% of the allowable number of machines. This is due, in part, to the change in statute to allow table games and the increasing popularity of those table games.

Revenues

SLGCA accounts for and disperses the revenue derived from the State's gaming facilities. **Exhibit 8** shows the actual disposition of gross revenue from the facilities in fiscal 2017 compared to the estimates. Revenues for both VLTs and table games fell short of expectations.

Exhibit 8
Disposition of Maryland Gaming Facilities Gross Revenues
Fiscal 2017
(\$ in Millions)

| | <u>2017</u> <u>Estimate</u> | <u>2017</u> <u>Actual</u> | <u>Difference</u> |
|--|--------------------------------|------------------------------|-------------------|
| Video Lottery Terminal Revenues | | | |
| Education Trust Fund | \$376.3 | \$361.7 | -\$14.6 |
| Licensees | 406.7 | 391.3 | -15.4 |
| Purse Dedication Account | 56.8 | 54.6 | -2.2 |
| Local Impact Grants | 49.5 | 47.5 | -2.0 |
| Racetrack Facility Renewal Account | 8.8 | 8.4 | -0.4 |
| State Lottery Agency | 9.7 | 9.3 | -0.4 |
| Small, Minority and Women-Owned Businesses Account | 13.5 | 12.9 | -0.6 |
| Subtotal | \$921.3 | \$885.7 | -\$35.6 |
| Table Games | | | |
| Education Trust Fund | \$90.2 | \$89.5 | -\$0.7 |
| Licensees | 432.1 | \$428.0 | -\$4.1 |
| Local Impact Grants | 17.8 | 17.6 | -\$0.2 |
| Subtotal | \$540.1 | \$535.1 | -\$5.0 |
| Total | \$1,461.4 | \$1,420.8 | -\$40.6 |

Source: Board of Revenue Estimates; Department of Legislative Services

Exhibit 9 details the revised estimates for VLTs and table games in fiscal 2018 and 2019. The expectation is that both table games and VLTs will post gains, although not as robust as previously projected.

Exhibit 9
Maryland Gaming Facilities Estimated Revenues
Fiscal 2018-2019
(\$ in Millions)

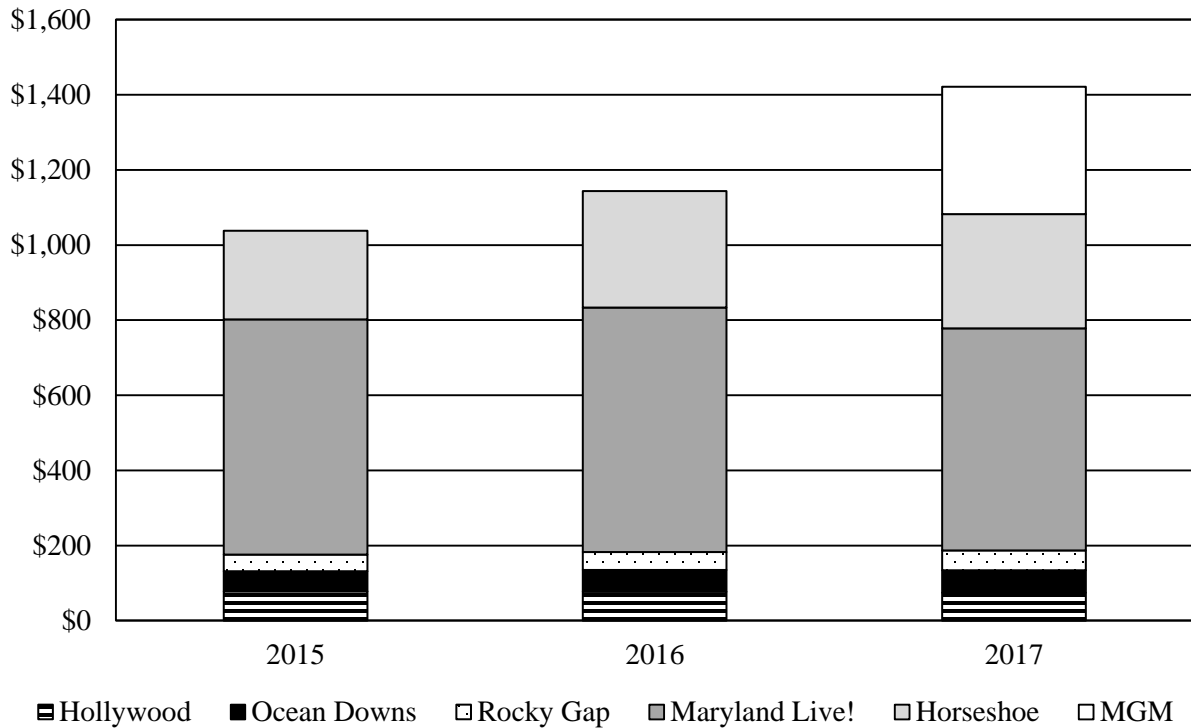
| | Estimate 2018 | Revised Estimate 2018 | <u>Difference</u> | Estimate 2019 | Revised Estimate 2019 | <u>Difference</u> |
|-------------------------|--------------------------|--------------------------------------|--------------------------|--------------------------|--------------------------------------|--------------------------|
| Video Lottery Terminals | \$1,132.4 | \$1,011.0 | -\$121.4 | \$1,147.8 | \$1,026.4 | -\$121.4 |
| Table Games | 658.5 | 621.6 | -36.9 | 666.7 | 632.2 | -34.5 |
| Total | \$1,790.9 | \$1,632.6 | -\$158.3 | \$1,814.5 | \$1,658.6 | -\$155.9 |

Source: Board of Revenue Estimates; Department of Legislative Services

Although the casino in Prince George’s County opened in December 2016, it is already having a significant effect on State revenues. **Exhibit 10** shows combined VLT and table game revenue by casino from fiscal 2015 to 2017. Fiscal 2017 was the first fiscal year of operation for the MGM National Harbor, which opened midway through the fiscal year.

Overall, casino revenues to the State increased by \$277.0 million, or 24.2%, driven by the new revenue stream from MGM National Harbor (\$338.4 million). The large influx of revenue was partially offset by declining revenue to the State at other facilities; Maryland Live! saw a 9.1% decline in revenue, while Hollywood Casino and Horseshoe Casino Baltimore each had smaller declines.

Exhibit 10
Gross Casino Revenues
Fiscal 2015-2017
(\$ in Millions)



Source: State Lottery and Gaming Control Agency

The State's gaming program was originally planned with a total of five casinos. A sixth casino was added by legislation in fiscal 2012 after other facilities were already in operation. To adjust for the increased and unexpected competition from a sixth casino, operator shares were increased for the facilities in Anne Arundel County and Baltimore City. This increase in operator share must be used for marketing, advertising, promotional costs, and capital improvements. The lottery commission has the discretion to further increase the operator share by up to 5% after July 1, 2019, at the facilities in Anne Arundel and Cecil counties and Baltimore City. SLGCA advises that, at this time, there have been no discussions about whether or not to increase operator shares.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Lottery Retailers by County

SLGCA is able to achieve its sales goals because of its network of lottery retailers. According to SLGCA, as of the end of calendar 2017, there were 4,414 lottery retailers. This is a small decrease from the number of retailers at the end of calendar 2016 (0.8%). Of these, 363 retailers participate in the Expanded Cashing Authority Program and are allowed to cash winnings of up to \$5,000. All other retailers may cash winning tickets up to \$600. Agents earn 5.5% of sales at retail establishments as well as 3.0% in cashing commissions. **Exhibit 11** shows the total number of retailers in each county.

Exhibit 11
Maryland Lottery Retailers – By County
 (As of December 2017)

| <u>County</u> | <u>Retailer Count</u> | <u>Percentage of Total</u> |
|-----------------|-----------------------|----------------------------|
| Allegany | 57 | 1.3% |
| Anne Arundel | 425 | 9.6% |
| Baltimore | 706 | 16.0% |
| Baltimore City | 660 | 15.0% |
| Calvert | 68 | 1.5% |
| Caroline | 29 | 0.7% |
| Carroll | 129 | 2.9% |
| Cecil | 97 | 2.2% |
| Charles | 137 | 3.1% |
| Dorchester | 31 | 0.7% |
| Frederick | 154 | 3.5% |
| Garrett | 28 | 0.6% |
| Harford | 184 | 4.2% |
| Howard | 154 | 3.5% |
| Kent | 17 | 0.4% |
| Montgomery | 431 | 9.8% |
| Prince George's | 602 | 13.6% |
| Queen Anne's | 56 | 1.3% |
| St. Mary's | 102 | 2.3% |
| Somerset | 17 | 0.4% |
| Talbot | 36 | 0.8% |
| Washington | 116 | 2.6% |
| Wicomico | 83 | 1.9% |
| Worcester | 95 | 2.2% |
| Total | 4,414 | 100.0% |

Source: State Lottery and Gaming Control Agency

Appendix 1
Current and Prior Year Budgets
State Lottery and Gaming Control Agency
(\$ in Thousands)

| | <u>General Fund</u> | <u>Special Fund</u> | <u>Federal Fund</u> | <u>Reimb. Fund</u> | <u>Total</u> |
|----------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------------|---------------------|
| Fiscal 2017 | | | | | |
| Legislative Appropriation | \$21,700 | \$77,353 | \$0 | \$0 | \$99,053 |
| Deficiency Appropriation | 120 | 0 | 0 | 0 | 120 |
| Cost Containment | 0 | -982 | 0 | 0 | -982 |
| Budget Amendments | 222 | 1,208 | 0 | 0 | 1,430 |
| Reversions and Cancellations | -1,335 | -802 | 0 | 0 | -2,137 |
| Actual Expenditures | \$20,706 | \$76,778 | \$0 | \$0 | \$97,485 |
| Fiscal 2018 | | | | | |
| Legislative Appropriation | \$20,048 | \$80,653 | \$0 | \$0 | \$100,701 |
| Cost Containment | -379 | 0 | 0 | 0 | -379 |
| Budget Amendments | 0 | 0 | 0 | 0 | 0 |
| Working Appropriation | \$19,669 | \$80,653 | \$0 | \$0 | \$100,322 |

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. Numbers may not sum to total due to rounding.

Fiscal 2017

The State Lottery and Gaming Control Agency (SLGCA) closed fiscal 2017 \$1.6 million below its legislative appropriation across all funds.

General funds decreased by \$993,643 from the legislative appropriation. A budget amendment increased the appropriation by \$221,563 for centrally budgeted salary increments; there was also an increase of \$120,000 in a deficiency appropriation to provide additional funds to accommodate increased gaming central system operator fees at the MGM National Harbor casino. Those increases were offset by a \$1.3 million reversion in general funds due to lower than anticipated payouts at video lottery terminals.

Special funds decreased by \$575,144 from the legislative appropriation. The Board of Public Works (BPW) reduced the legislative appropriation by \$982,000 as part of cost containment actions in November 2016. SLGCA increased the special fund legislative appropriation by \$1 million by budget amendment in anticipation of higher lottery central system vendor costs resulting from higher sales, and by \$208,417 for centrally budgeted salary increments. Of the \$1 million amendment, the agency canceled \$801,561 because sales did not increase as much as expected.

Fiscal 2018

The SLGCA fiscal 2018 working appropriation of \$100.3 million is \$379,000 less than the legislative appropriation. At the September 2017 BPW meeting, SLGCA's fiscal 2018 appropriation was reduced by \$379,000 in general funds. The funds were to be used for video lottery terminal (VLT) operations but were unneeded as the agency no longer owns the VLT machines.

Appendix 2
Major Information Technology Project
State Lottery and Gaming Control Agency
Lottery Central Monitoring and Control System

| | | | | | | | | |
|--|--|-------------------|----------------|---|----------------|----------------|----------------------------|-------------------|
| Project Status | Implementation. | | | New/Ongoing Project: | | Ongoing. | | |
| Project Description: | Replacement of the current Lottery Central Monitoring and Control System due to the expiration of the existing contract. | | | | | | | |
| Project Business Goals: | Modernize system to better manage instant ticket inventory and analyze sales data to better market State Lottery and Gaming Control Agency products. | | | | | | | |
| Estimated Total Project Cost: | \$49,498,000 | | | Estimated Planning Project Cost: | | \$0 | | |
| Project Start Date: | January 2015. | | | Projected Completion Date: | | April 2018. | | |
| Schedule Status: | Software development phase scheduled to end January 2018, integration and testing scheduled to begin in February 2018. | | | | | | | |
| Cost Status: | No known or anticipated cost changes. | | | | | | | |
| Scope Status: | A replacement system replacing all transaction processing equipment and systems and much of the lottery back office. | | | | | | | |
| Project Management Oversight Status: | The Department of Information Technology has approved the information technology request. | | | | | | | |
| Identifiable Risks: | To mitigate risk, vendor is providing multiple project managers and monitoring all aspects of system design and development. | | | | | | | |
| Additional Comments: | None. | | | | | | | |
| Fiscal Year Funding (\$ in Thousands) | Prior Years | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 | Balance to Complete | Total |
| Personnel Services | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Professional and Outside Services | 18,280.0 | 31,218.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 49,498.0 |
| Other Expenditures | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Funding | \$18,280.0 | \$31,218.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$49,498.0 |

Appendix 3
Object/Fund Difference Report
State Lottery and Gaming Control Agency

| <u>Object/Fund</u> | <u>FY 17 Actual</u> | <u>FY 18 Working Appropriation</u> | <u>FY 19 Allowance</u> | <u>FY 18 - FY 19 Amount Change</u> | <u>Percent Change</u> |
|-----------------------------|-------------------------|--|----------------------------|--|---------------------------|
| Positions | | | | | |
| 01 Regular | 324.10 | 324.10 | 324.10 | 0.00 | 0% |
| 02 Contractual | 10.75 | 9.75 | 9.75 | 0.00 | 0% |
| Total Positions | 334.85 | 333.85 | 333.85 | 0.00 | 0% |
| Objects | | | | | |
| 01 Salaries and Wages | \$ 26,428,999 | \$ 26,457,332 | \$ 26,680,886 | \$ 223,554 | 0.8% |
| 02 Technical and Spec. Fees | 456,358 | 454,392 | 547,645 | 93,253 | 20.5% |
| 03 Communication | 421,465 | 369,751 | 472,380 | 102,629 | 27.8% |
| 04 Travel | 83,862 | 59,000 | 99,500 | 40,500 | 68.6% |
| 06 Fuel and Utilities | 173,623 | 172,775 | 178,832 | 6,057 | 3.5% |
| 07 Motor Vehicles | 426,697 | 444,508 | 502,253 | 57,745 | 13.0% |
| 08 Contractual Services | 53,932,742 | 56,777,343 | 68,945,711 | 12,168,368 | 21.4% |
| 09 Supplies and Materials | 128,078 | 286,000 | 286,000 | 0 | 0% |
| 10 Equipment – Replacement | 36,042 | 122,500 | 122,500 | 0 | 0% |
| 11 Equipment – Additional | 13,961,032 | 13,791,416 | 117,000 | -13,674,416 | -99.2% |
| 13 Fixed Charges | 1,435,639 | 1,376,906 | 1,455,068 | 78,162 | 5.7% |
| 14 Land and Structures | 0 | 10,000 | 10,000 | 0 | 0% |
| Total Objects | \$ 97,484,537 | \$ 100,321,923 | \$ 99,417,775 | -\$ 904,148 | -0.9% |
| Funds | | | | | |
| 01 General Fund | \$ 20,706,321 | \$ 19,669,221 | \$ 6,929,957 | -\$ 12,739,264 | -64.8% |
| 03 Special Fund | 76,778,216 | 80,652,702 | 92,487,818 | 11,835,116 | 14.7% |
| Total Funds | \$ 97,484,537 | \$ 100,321,923 | \$ 99,417,775 | -\$ 904,148 | -0.9% |

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. The fiscal 2019 allowance does not include contingent reductions or cost-of-living adjustments.

Appendix 4
Fiscal Summary
State Lottery and Gaming Control Agency

| <u>Program/Unit</u> | <u>FY 17 Actual</u> | <u>FY 18 Wrk Approp</u> | <u>FY 19 Allowance</u> | <u>Change</u> | <u>FY 18 - FY 19 % Change</u> |
|--------------------------------------|-------------------------|-----------------------------|----------------------------|--------------------|-----------------------------------|
| 01 Administration and Operations | \$ 67,208,833 | \$ 68,795,702 | \$ 82,223,344 | \$ 13,427,642 | 19.5% |
| 02 Video Lottery Terminal Operations | 30,275,704 | 31,526,221 | 17,194,431 | -14,331,790 | -45.5% |
| Total Expenditures | \$ 97,484,537 | \$ 100,321,923 | \$ 99,417,775 | -\$ 904,148 | -0.9% |
| General Fund | \$ 20,706,321 | \$ 19,669,221 | \$ 6,929,957 | -\$ 12,739,264 | -64.8% |
| Special Fund | 76,778,216 | 80,652,702 | 92,487,818 | 11,835,116 | 14.7% |
| Total Appropriations | \$ 97,484,537 | \$ 100,321,923 | \$ 99,417,775 | -\$ 904,148 | -0.9% |

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. The fiscal 2019 allowance does not include contingent reductions or cost-of-living adjustments.